

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

Senate Bill 730

(Senator Norman)

Judicial Proceedings

Rules and Executive Nominations

---

Vehicle Laws - Manufacturers and Dealers

---

This bill establishes that a motor vehicle manufacturer, distributor, or factory branch (collectively known as licensees) may not prohibit a vehicle dealer from, or take any adverse action against a dealer for, providing a customer with information given to the dealer by a manufacturer related to any condition that may substantially affect motor vehicle safety, durability, reliability, or performance. A licensee may not take specified actions related to the compensation of a dealer for performing covered warranty or required recall repairs on a vehicle under specified circumstances. In addition, the bill requires a dealer to be compensated under specified circumstances for holding vehicles on a lot under a stop sale directive.

---

**Fiscal Summary**

**State Effect:** The bill does not materially affect State finances or operations.

**Local Effect:** The bill does not materially affect local finances or operations.

**Small Business Effect:** Potential meaningful.

---

**Analysis**

**Bill Summary:** A dealer may provide information regarding conditions that may substantially affect motor vehicle safety, durability, reliability, or performance only to a customer that has (1) purchased the vehicle for which the information pertains from the dealer or (2) had the vehicle for which the information pertains serviced by the dealer.

A licensee may not deny a claim, reduce the amount of compensation to a dealer, or process a charge back to a dealer for performing covered warranty or required recall repairs on a vehicle under the following circumstances:

- for resolving a condition covered by the licensee’s original warranty;
- for remedying a safety-related defect that is subject to an outstanding recall under federal law;
- if the dealer properly performed the repairs and submitted the claims; or
- if the dealer discovered the need for repairs during the course of a separate repair requested by the customer or through notice of an outstanding recall under federal law for a safety-related defect.

Also, a dealer’s failure to comply with a manufacturer’s or distributor’s specific requirements for claim processing cannot be used as a basis to deny the claim (or reduce the amount of compensation paid to the dealer) as long as the dealer presents reasonable documentation or other reasonable evidence to substantiate the claim.

Finally, if a “licensee” issues a stop sale directive applicable to a used vehicle manufactured by the licensee to a dealer that holds a franchise from the licensee and there are no remedies or parts available to fix the motor vehicle, the licensee must compensate the dealer. Compensation may be in one of two forms: (1) providing payment to the dealer at a rate of at least 1% – per month or portion of a month – of the value of the vehicle; or (2) under a national program applicable to all dealers holding a franchise from the licensee for their costs associated with the stop sale directive.

**Current Law:** A motor vehicle manufacturer, distributor, or factory branch must be licensed by the Motor Vehicle Administration (MVA) in order to, among other things, transfer new vehicles and conduct business in new vehicles in Maryland. Likewise, a person may not conduct the business of a dealer unless licensed by MVA. MVA may refuse to grant, suspend, revoke, or refuse to renew a license under specified circumstances. For a manufacturer, distributor, or factory branch, those circumstances include a finding that the person (1) made any material misrepresentation in transferring a vehicle or truck component to a dealer or distributor; (2) failed to comply with any written warranty agreement; or (3) failed to reasonably compensate any franchised dealer for specified work.

A manufacturer, distributor, or factory branch must specify in writing to each of its licensed vehicle dealers the dealer’s obligation for vehicle warranties and recalls on its products as well as the compensation to be paid to the dealer for work related to the dealer’s service obligations. “Reasonable compensation” may not be less than what the dealer would charge for equivalent labor or parts for the same nonwarranty repairs.

A dealer's failure to comply with a specific requirement of the manufacturer or distributor may not constitute grounds for denial of a claim or reduction of the amount of compensation paid to the dealer if the dealer presents documentation or other reasonable evidence to substantiate that the repair and the claim were done according to manufacturer warranty guidelines.

A manufacturer, distributor, or factory branch may not take adverse action against a dealer because the dealer seeks compensation by implementing a process that is inconsistent with its obligations to the dealer or by failing to act in good faith. A manufacturer, distributor, or factory branch is also prohibited from conducting any warranty or retail customer repair audit (or other service-related audit) solely because the dealer makes a request for warranty reimbursement at ordinary retail rates.

**Small Business Effect:** Vehicle dealerships that are small businesses may benefit from the bill's prohibition against motor vehicle manufacturers, distributors, or factory branches taking adverse action against the dealerships for providing specified information to customers. Dealerships also benefit from the bill's requirements related to compensation from licensees that issue stop sale directives and from other protections related to payment of claims.

**Additional Comments:** Although the term is used in both current law and the bill, neither current law nor the bill defines "licensee." Within Title 15, Subtitle 2 of the Transportation Article, "license" is defined as a manufacturer's, distributor's, or factory branch's license issued by MVA under that subtitle. Thus, use of "licensee" within Subtitle 2 can readily be ascertained as applying to such an entity. Likewise, within Title 15, Subtitle 3 of the Transportation Article, "license" is defined as a dealer's license issued by MVA under that subtitle, and use of "licensee" within Subtitle 3 likely refers to such a dealer.

Nevertheless, under the bill's requirements related to compensation for stop sale directives (amended to be in Title 15, Subtitle 3 of the Transportation Article), "licensee," in context, appears to refer to a person licensed as a manufacturer, distributor, or factory branch under Subtitle 2. Accordingly, this fiscal and policy note assumes "licensee," in the context of issuing a stop sale directive and being required to compensate dealers for holding such vehicles on a lot, refers to a manufacturer, distributor, or factory branch.

---

## Additional Information

**Prior Introductions:** None.

**Cross File:** HB 525 (Delegate Beidle, *et al.*) - Environment and Transportation.

**Information Source(s):** Office of the Attorney General (Consumer Protection Division),  
Maryland Department of Transportation, Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2016  
min/ljm Revised - Senate Third Reader - April 12, 2016

---

Analysis by: Eric Pierce

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510